

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: October 23, 2009
TO: Members of the Senate
FROM: Gary S. Olson, Director
RE: Proration of K-12 School Aid Fund Appropriations

On Thursday, October 22, 2009, the State Budget Director issued a proration letter for the School Aid Fund (SAF) based on SAF revenue estimates provided to him by the Department of Treasury. This proration process is authorized under Section 11(3) of the State School Aid Act (MCL 388.1611). The letter outlines a \$212.0 million FY 2009-10 SAF funding shortfall. This funding shortfall would be eliminated by a \$127 per-pupil reduction. This statutory process allows the State Budget Director to order per-pupil reductions to school districts and intermediate school districts to offset a projected shortfall in K-12 SAF revenue. Once the proration letter is issued by the State Budget Director, the per-pupil reductions take effect within 30 calendar days unless the Legislature takes alternative action to eliminate the estimated funding shortfall. Absent any such action by the Legislature and the signature of the Governor, the per-pupil reductions would take effect on November 21, 2009.

Specifics of Revenue Shortfall

The Department of Treasury has identified a \$212.0 million funding shortfall in the enacted FY 2009-10 SAF appropriations. This shortfall consists of a combination of projected changes in the May 2009 consensus revenue estimate, the elimination of assumed new revenue sources included in the K-12 SAF appropriation bill approved by the Legislature, and the elimination of additional FY 2008-09 SAF revenue assumed by the Legislature in the appropriation bill approved by the Legislature. The Department of Treasury is estimating that the May 2009 consensus estimate of restricted SAF revenue is over their revised projections by \$204.4 million. This revenue revision consists of an anticipated \$75.7 million reduction in the May 2009 consensus estimate of FY 2008-09 SAF revenue and a \$128.7 million reduction in the May 2009 consensus estimate of FY 2009-10 SAF revenue.

The FY 2009-10 K-12 SAF appropriation bill approved by the Legislature assumed revenue increases of \$100.0 million would be enacted by the Legislature and signed into law by the Governor. While the Senate on October 8, 2009, approved bills to implement this increase in FY 2009-10 SAF revenue, the bills have not been taken up by the House of Representatives. The proration ordered by the State Budget Director does not take into account this revenue increase assumed by the Legislature.

The final change in revenue outlined by the Department of Treasury involves \$30.5 million of one-time FY 2008-09 SAF revenue that was assumed by the Legislature in the FY 2009-10 SAF budget. The \$30.5 million is one-time lottery revenue generated from the refinancing of lottery cash flow. This revenue was assumed in the K-12 appropriation bill approved by the Legislature, but is not accounted for in the Department of Treasury estimates.

Taken together, the \$204.4 million change in the consensus revenue estimate, the elimination of an assumed \$100.0 million of increased SAF revenue and the elimination of the assumed \$30.5 million of savings from refinancing the lottery, leads to a net \$334.9 million change in the level of FY 2009-10 SAF revenue. The Senate Fiscal Agency (SFA) in a memorandum sent to the Senate on October 21, 2009, stated that the enacted FY 2009-10 K-12 SAF appropriation bill was in balance by \$123.0 million. Reducing revenue by \$334.9 million, as identified by the October 22, 2009, proration letter leads to the \$212.0 million SAF budget deficit identified by the State Budget Director.

Legislative Responsibility in Proration Process

The \$127 per-pupil reduction triggered by the October 22, 2009, letter from the State Budget Director will result in appropriation reductions of \$201.9 million to school districts, an \$8.8 million reduction to intermediate school districts, and a \$1.3 million reduction to entities other than school districts and intermediate school districts. The reductions will take effect on November 21, 2009, absent any action by the Legislature to eliminate the SAF funding shortfall identified by the State Budget Director.

The funding shortfall could be eliminated by the Legislature through three major alternatives. First, the Legislature could pass legislation increasing restricted SAF revenue. The second alternative would be for the Legislature to appropriate additional other revenue sources to the SAF budget. These alternative revenue sources could include the appropriation of \$184.1 million of Federal American Recovery and Reinvestment Act funding available for appropriation to the SAF budget. Under the SAF budget plan approved by the Legislature these Federal funds are to be used in the FY 2010-11 SAF budget. The FY 2009-10 GF/GP budget approved by the Legislature has a projected year-end balance of approximately \$200.0 million. This projected FY 2009-10 GF/GP budget surplus could be appropriated to the SAF budget to offset a portion of the projected deficit. The third alternative available to the Legislature would be to replace the \$127 per-pupil reduction with other reductions in the K-12 budget. These reduction options would have to include reductions in categorical aid programs such as at-risk or early childhood programs.

The Legislature could use any combination of the above alternatives to eliminate the K-12 SAF funding shortfall outlined by the State Budget Director. It is important to point out that any alternative to the \$127 per-pupil reduction would require the approval of the Governor. The State Budget Director's October 22, 2009, proration letter made no specific recommendations to the Legislature to eliminate the \$127 per-pupil funding reduction.

If you have any questions on this issue, please call my office.

/kjh

c: Ellen Jeffries, Deputy Director